MELTON REAL ESTATE LTD.

REAL ESTATE BROKERAGE

LAND DEVELOPMENT

REVENUE PROPERTIES

MORTGAGES

CONSTRUCTION

1973 annual report

FINANCIAL HIGHLIGHTS

	1973	1972
Total Assets	**$33,032,145**	$16,839,694
Shareholders Equity	**5,671,014**	4,346,252
Gross Income	**16,376,402**	9,372,678
Net Income	**1,390,891**	840,338
Earnings per Share—basic	**.67**	.41
—fully diluted	**.53**	.33
Cash Flow per Share	**1.21**	.55

CONTENTS

CORPORATE INFORMATION

DIRECTORS:

W. G. Holmes, C.A.
President, Melton Real Estate Ltd.

T. C. Melton, B. Comm.
Vice President, Melton Real Estate Ltd.

J. R. Sherrin
Secretary, Melton Real Estate Ltd.

W. C. Willetts, C.A.
Treasurer, Melton Real Estate Ltd.

S. M. Beckhuson
Vice President, Trans Canada Joint Mortgages Corporation Ltd.

G. R. Brosseau, Q.C., B.A., L.L.B.
Senior Partner, Brosseau Maccagno

L. G. Lemieux
Business Man (Retired)

Senator E. C. Manning, P.C., C.C.
President, M & M Systems Research Ltd.

D. A. Carlson, P. Eng.
President, A. V. Carlson Construction Ltd.

EXECUTIVE OFFICES:

10310 Jasper Avenue, 9th Floor
Edmonton, Alberta
429-6931 (403)

TRANSFER AGENTS AND REGISTRAR:

Royal Trust Company
Edmonton, Vancouver, Toronto

AUDITORS:

Willetts, Macmahon & Company

STOCK LISTED:

Toronto Stock Exchange
Vancouver Stock Exchange

OFFICERS AND SENIOR MANAGEMENT

W. G. Holmes, C.A.
President

T. C. Melton, B. Comm.
Vice President

W. G. Bennett, F.R.I.
Vice President Real Estate Brokerage

P. J. Dailey, B. Comm., M.B.A.
Vice President Real Estate Investment

R. Young, P. Eng., M.B.A.
Vice President Land Development

J. R. Sherrin
Secretary

W. C. Willetts, C.A.
Treasurer

J. R. Sheard, C.A.
Assistant Treasurer

PRESIDENT'S REPORT

To the Shareholders:

It is with pleasure that I submit this report on behalf of your Board of Directors.

The year ended December 31, 1973 was the most successful year in your company's history. Net earnings after taxes for the year were $1,390,891, a 65% increase over 1972. Cash flow increased 120% to $2,480,334; gross assets increased 96% to $33 million.

All divisions contributed to our continuing growth.

During the past year ten new sales offices were opened. This expansion will make a significant contribution to sales and earnings in 1974. Your company's policy of expansion continues in 1974 as we have thus far opened three new offices, including Melton's first office in Victoria, B.C. The company now has more than 560 people dedicated to providing the highest quality of real estate service.

The land development division increased its land holdings during a year of record sales. Further acquisitions are being pursued.

There was a significant increase in investment in revenue properties. While increased earnings from these investments will not be evident this year, the tax shelter so provided enhances the company's cash flow.

Melton Real Estate's housing construction division, which is building in Calgary and the greater Edmonton area, has received a high level of public acceptance. Building starts will be greatly increased in 1974.

Your Directors are confident that the Company's area of operations — Western Canada, will continue to grow and prosper. It is our commitment that your company should continue to expand its participation in the opportunities that are and will be available. These will be opportunities for not only increased physical growth and higher earnings, but also to meet the social challenge of providing needed shelter for people and industry.

While the problems of inflation and delays in obtaining approvals for subdivision development will continue in 1974, we believe that the Canadian economy, supported by our self-sufficiency in fuel and the higher prices prevailing for agricultural products, will sustain its advance and the demand for all classes and types of real estate accommodation will remain very strong.

We are confident our forecast of increased income in 1974 will be attained.

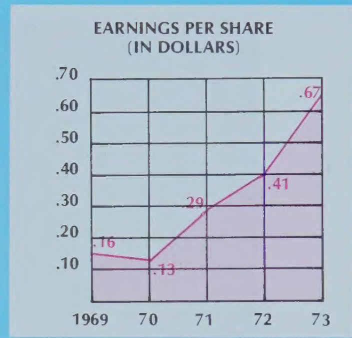
Five full years have been completed since the present company was formed in 1968 and the common shares now qualify as an investment under the Canadian & British Insurance Companies Act.

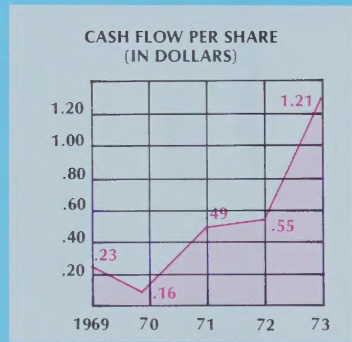
The Directors express their appreciation to our employees for their loyalty and contribution to our growth and to our shareholders and clients for their continued support.

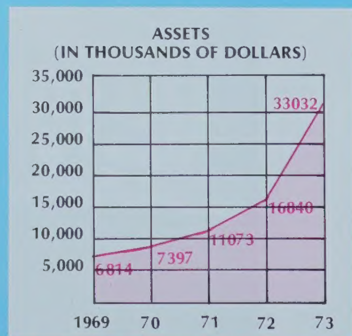
On behalf of the Board of Directors

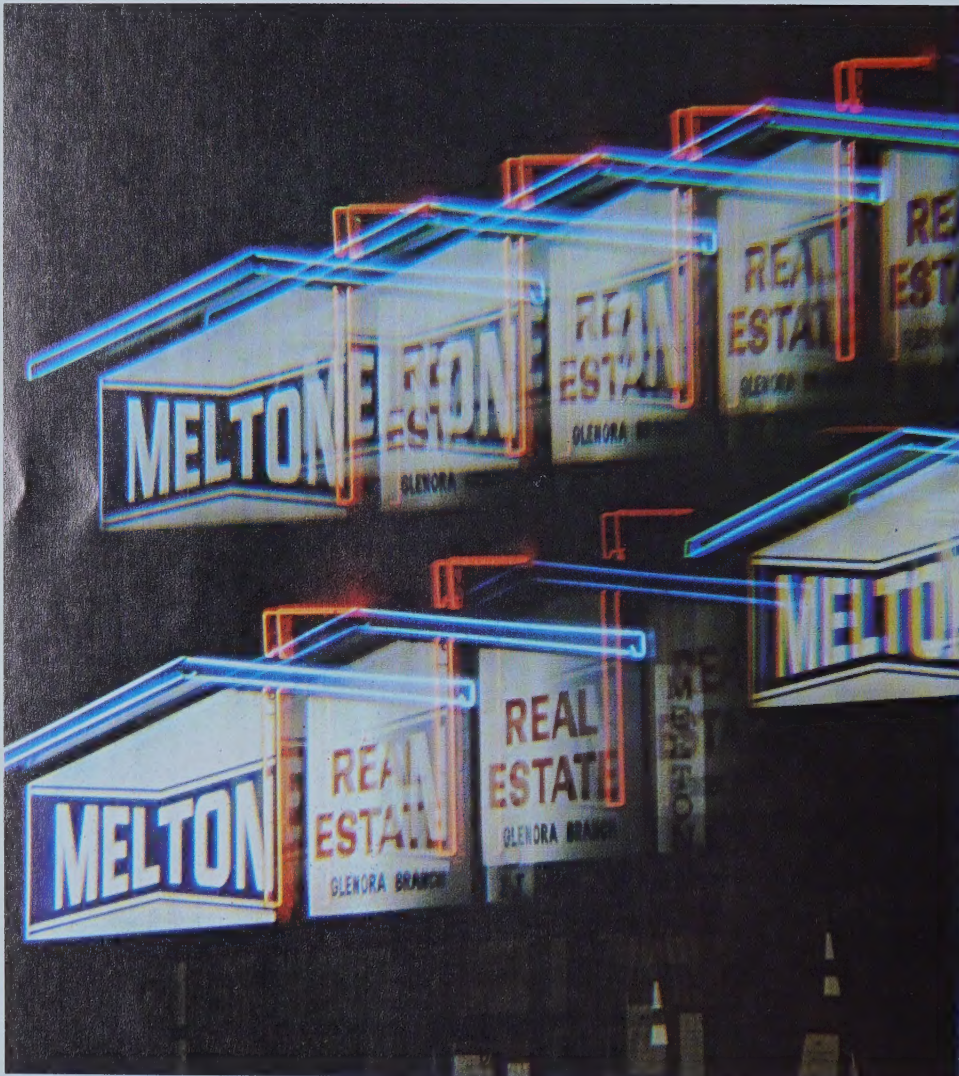
W. G. Holmes, C.A.
President.

March 27, 1974









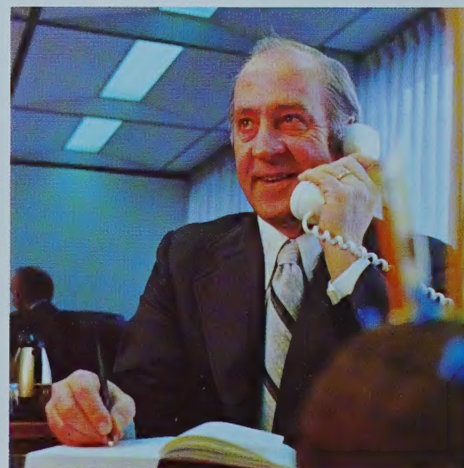
REAL ESTATE BROKERAGE

Melton's celebrated their 50th year of operation in 1973 which proved to be the Brokerage Division's most successful year to date with a volume of 165 million dollars in real estate sales for others. This was a 46% increase over the 112 million dollars recorded in 1972.

The success of the Brokerage Division is attributed to a number of factors. In particular, the buoyancy of the national economy together with the retention, recruiting and training of personnel which has enabled Melton Real Estate to provide the ultimate service for the public in all areas of its operation.

In 1973 our personnel increased from 280 to over 400 working out of 29 branch offices in Vancouver, Edmonton, Red Deer, Calgary, Saskatoon, Regina and Winnipeg. Twenty-six

W. G. Bennett, Vice-President



management appointments were made, 22 of these being promotions of company personnel indicating the opportunity for advancement within the company.

Our management development is continued at two major educational seminars per year which gives specialized training in planning, supervision and motivation.

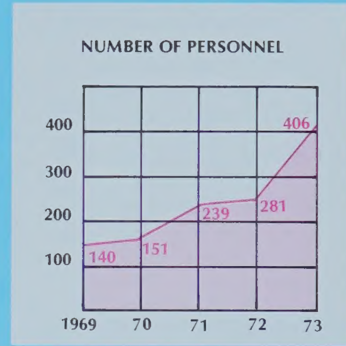
During the year steps were taken to achieve our objective to provide a Canada wide real estate service. In January of 1973 we opened in Winnipeg and now have five offices there. In September, 1973 the highly reputable firm of Dollard & Gallagher of Regina was acquired. We also expanded to the city of Red Deer and opened additional offices in Edmonton, Calgary and Vancouver. All costs related to expansion are charged against income in the year in which they are incurred.

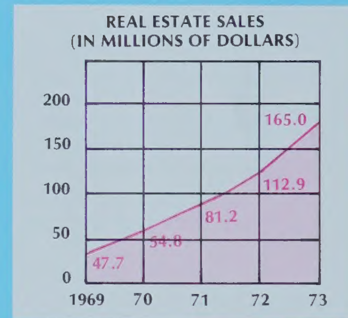
We have developed a plan where brokerage referrals are made between Melton's and H. Keith Realty of Toronto and Westgate Realty of Montreal. This allows us to service the public in these two large areas where we do not have offices.

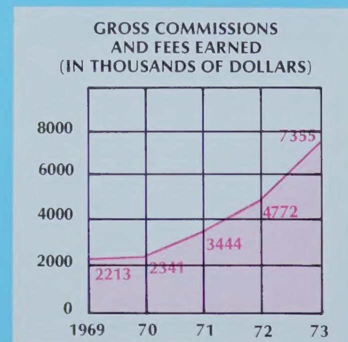
In 1974 we are continuing to increase our coverage of the real estate market. To date we have opened additional offices in Winnipeg, Edmonton and Victoria.

Melton's unique Guaranteed Sales Plan continues to receive increasing public acceptance. In operation this plan allows Meltons to purchase a residential property thus allowing the vendor to purchase a new home anywhere without restrictions. Should the home sell for more than Melton's guaranteed price the vendor receives the benefit.

Melton's Brokerage Division is confident of the continued growth of Canada and are dedicated to participating fully in this growth.







LAND DEVELOPMENT

Over the past five years the division has grown to become the largest generator of income within the Company. The Land Development Division is active in the acquisition and servicing of land, primarily for single family lots, although a certain number of multi-family and commercial sites are created, depending on the availability of existing facilities in relation to our subdivision. In 1973, the division expanded from one to three geographical areas of operations to include Calgary and Kamloops, two of Canada's fastest growing centers.

Edmonton Region

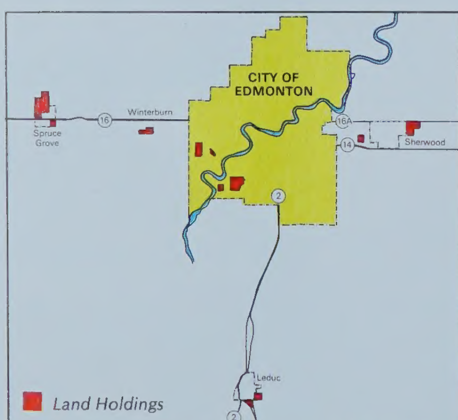
Edmonton and the surrounding communities of Spruce Grove and Leduc continued to provide the base of the division's operations. Expansion in this region included acquisition of land for future industrial as well as urban and country residential developments.

The division commenced development during 1973 on its third major neighbourhood in the Town of Spruce Grove, Woodhaven, which incorporates a major natural wooded open space. Planning of the area encouraged maximum preservation of the trees for the enjoyment of future generations. To date, all 220 lots in Phase I have been sold and demand remains high for the remaining 200 lots in Phase II, which will be marketed in 1974. Preliminary planning in Mill Grove, the fourth neighbourhood, was initiated. The development has received approval in principle and servicing will start in 1974.

In the Town of Leduc, we completed the development and sale of 268 lots in the Corinthia Park neighbourhood ending a five-year program. As of January 1st, 1974, 160 acres of land owned by the Company was annexed to the Town and negotiations were commenced for subdivision approval. These lands are adjacent to existing residential development and should be available for sale in 1974.

Your Company has an option to purchase one-third of the residential lots in 550 acres within the Riverbend/Terwillegar Heights community in Southwest Edmonton. This land is optioned at prices substantially below market values. The development of these lands will commence when certain trunk utilities, now being installed, have been completed.

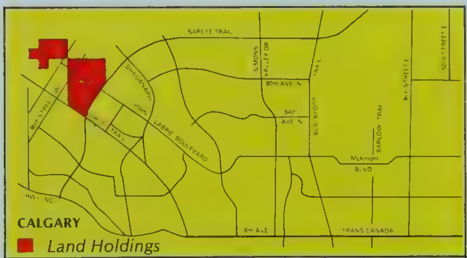
In Edmonton, Lamb Holdings Ltd., a land development syndicate which your Company manages and holds a 25% interest, continued



Town of Leduc

its activity in West Edmonton with the sale of all lots in the Primrose neighbourhood. During 1973, development was commenced in Westridge, one of the most prestigious new neighbourhoods in Edmonton. These lots will be available for sale in the spring of 1974. Preliminary planning was initiated in the Lymburn neighbourhood. It is anticipated that development and sale of lots in Lymburn will also take place in 1974.

In order to maintain growth, numerous acquisitions were completed to expand the existing land bank. The Company purchased 80 acres of land and optioned an additional 80 acres of land adjacent to the Town of Spruce Grove. The Company exercised two options to purchase a total of 440 acres of land immediately adjacent to Sherwood Park. These lands have potential for future residential development as these rapidly growing areas expand to meet housing demands. To achieve growth and diversification future industrial and country residential lands were purchased or optioned. 120 acres of future light industrial land was acquired in the County of Strathcona. An option was obtained on 225 acres of country residential land in the County of Parkland.



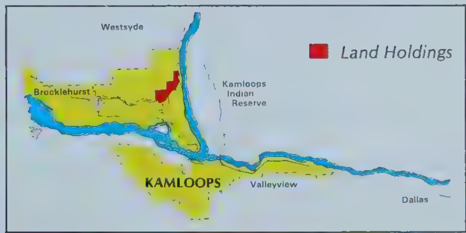
Calgary Region

The major expansion of the division occurred in 1973 with commencement of active operations in Calgary. The acquisition of additional future residential land ensure long term activities in this region.

The first sod was turned in the West Dalhousie community on April 27 with Calgary Mayor Rodney Sykes officiating. A show home parade involving six builders was initiated by the Company and received an outstanding response from Calgary residents. 247 residential lots were developed and sold during the year with an additional 125 lots subdivided for sale in 1974.

The division commenced a major environment and planning study to provide input to the City of Calgary on the potential for development of the balance of the Company's land in the Crowchild sector of Calgary.

Expansion within the Region occurred through the acquisition of 315 acres of land adjacent to the Calgary city limits. These lands fall within an area approved for annexation by Calgary City Council. The Company also has an option on 320 acres of land within the proposed annexation area.

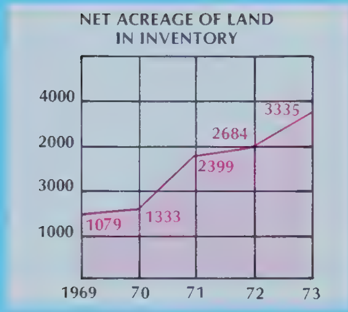


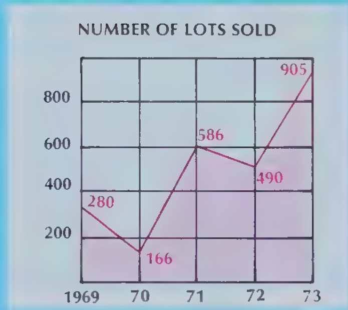
British Columbia Region

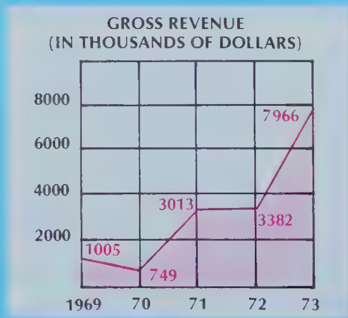
In 1973, the Company exercised its option to purchase the remaining 50% interest in 250 acres of land in northwest Kamloops. The development, known as Batchelor Hills, offers unparalled views of the Kamloops area and demand has been high for the purchase of the lots.

162 lots were developed and sold prior to year-end and the balance of approximately 120 lots will be sold in 1974.

A 25% interest is held in 273 acres of land close to the Town of Fort St. John.







REVENUE PROPERTIES

The year 1973 saw significant changes for the department reflecting the increasing emphasis placed by the company on the development of revenue properties.

Development added to the company's investment holdings during the year were:

Expansion of the Shopping Centre in Spruce Grove to a total size of 40,000 sq. ft.

Construction of a 24 suite apartment in the Town of Spruce Grove.

A 283 unit apartment complex in south Edmonton.

Completion of Melton's 9-storey Head Office building in downtown Edmonton.

The company's current investment portfolio is made up of 460 residential units and 173,200 sq. ft. of retail and office space.

Plans for the future of this department include a concerted effort to diversify activities and the geographical dispersion of investments. We will be actively searching for development opportunities and existing income properties throughout Western Canada.

P. J. Dailey, Vice-President

EXISTING INCOME PROPERTY PORTFOLIO

Residential:

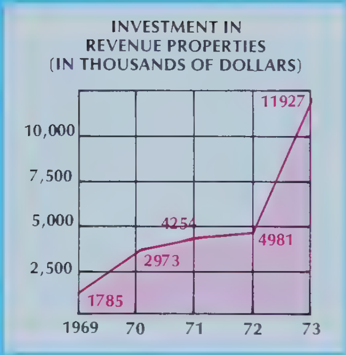
Sherbrooke Court (Edmonton)	14 units
Villa Rica (Edmonton)	15 units
#10 Arlington (Spruce Grove)	10 units
Swan Hills Apartment (Swan Hills)	12 units
Hillington Court (Edmonton)	102 units
Brookwood Manor (Spruce Grove)	24 units
Country Lane (Edmonton)	283 units
Total	460 units

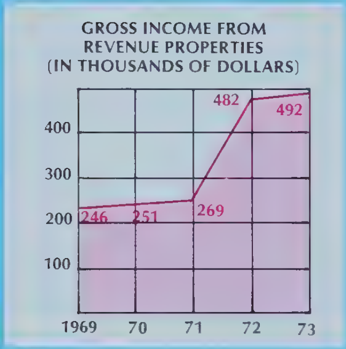
Commercial and Office:

Melton Building (Edmonton)	116,700 sq. ft.
Kingsway Building (Edmonton)	7,000 sq. ft.
Dominion Building (Edmonton)	9,500 sq. ft.
Grove Plaza (Spruce Grove)	40,000 sq. ft.
Total	173,200 sq. ft.

LAND BANK FOR FUTURE DEVELOPMENT

2.4 acres—Leduc—Commercial
1.7 acres—Spruce Grove—Multi-Family
2.8 acres—Edmonton—Condominium
.8 acres—Calgary—Commercial
.2 acres—Calgary—Office
.5 acres—Spruce Grove—Commercial
2.4 acres—Leduc—Commercial
2.6 acres—Leduc—Multi-Family
7.2 acres—Edmonton—Multi-Family
2.6 acres—Leduc—Multi
2.6 acres—Leduc—Multi-Family
3.6 acres—Spruce Grove—Multi-Family
13.4 acres—Calgary—Industrial
12.0 acres—Spruce Grove—Commercial





MORTGAGE DEPARTMENT

The Mortgage Department, operating as Trans-Canada Mortgage Ltd., acts as a mortgage broker and administrator of the mortgage portfolio of the company.

The activities of this department include the placement of NHA builders loans and conventional first mortgages with various financial institutions, and the placement of second mortgages for resale and for the company's portfolio.

For 1974 a modest expansion is planned for the several activities of the department.

CONSTRUCTION

Melton Homes Ltd., the construction department of Melton Real Estate Ltd., is engaged in the construction of single family homes in the cities of Calgary, Edmonton and surrounding communities. From its inception in 1972 with 21 starts the company has in one year increased its starts to 79.

An important factor during 1973 has been the acquisition and training of qualified personnel. As with any home builder operation in today's shelter industry, performance is entirely dependent upon personnel. As this organizational structure continues to strengthen, we are confident that the people involved will be able to adequately cope with our planned production increases. Management of the department is proud of the personnel who make up the Melton Homes team and effort will be constant to maintain a solid core of competent people, capable of producing the 300 starts planned for 1974.

To meet our goals, the department will become involved in additional subdivisions in the cities of Calgary and Edmonton and will add production in at least two additional Edmonton satellite towns. Negotiations have been completed to acquire building sites from developers responsible for the development of West Primrose in Edmonton and the Properties and Queensland Downs in Calgary. These additional locations coupled with our involvement in the subdivisions where we are established will provide the land required to meet our projections.

It is the department's intention to continue to build high quality homes backed by our two year unconditional guaranty and five year structural warranty which we believe to be the first of its kind in Canada.

We believe that by this continued emphasis on quality we can achieve the substantial growth we have forecasted.

AUDITOR'S REPORT

To the Shareholders of
Melton Real Estate Ltd.

We have examined the consolidated balance sheet of Melton Real Estate Ltd. and its subsidiaries as at December 31, 1973 and the consolidated statements of income and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

WILLETTS MACMAHON & COMPANY
Chartered Accountants.

EDMONTON, Alberta,
March 7, 1974.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	1973	1972
Income		
Gross revenue from commissions and fees	**7,412,907**	4,818,623
Real estate sales	**7,971,484**	3,541,187
Revenue property income	**491,783**	482,048
Net income from joint ventures	**139,227**	139,500
Interest on agreements receivable	**181,844**	182,560
Mortgage interest and discounts	**99,366**	116,598
Other income	**79,791**	92,162
	16,376,402	9,372,678
Expenses		
Commissions	**4,670,300**	2,926,363
Cost of real estate sales	**5,672,530**	2,528,590
Revenue property operating expenses	**205,215**	243,974
Depreciation	**106,740**	82,782
Interest — Note 13	**467,849**	348,951
Operating and administrative	**2,526,875**	1,637,605
	13,649,509	7,768,265
Income before income taxes	**2,726,893**	1,604,413
Income taxes — Note 10		
Current	**334,469**	500,797
Deferred	**1,001,533**	263,278
	1,336,002	764,075
Net income for the year	**1,390,891**	840,338
Retained earnings, beginning of year	**2,759,219**	2,190,076
	4,150,110	3,030,414
Deduct:		
Dividends	**145,439**	122,190
Goodwill written off	—	149,005
	145,439	271,195
Retained earnings, end of year	**$ 4,004,671**	$ 2,759,219

Earnings per share — Note 15

CONSOLIDATED BALANCE SHEET

ASSETS	1973	1972
Cash	**271,250**	234,616
Commissions and Sundry Receivables	**1,495,006**	738,199
Income Taxes Recoverable	**208,528**	—
Agreements Receivable on Real Estate Sales	**4,899,212**	2,189,097
Mortgages Receivable	**1,065,121**	700,626
Investments in Joint Ventures and Partnerships — Note 6	—	59,194
Real Estate for Development and Sale — Note 2	**12,841,228**	7,614,871
Revenue Properties — Note 3	**11,927,330**	4,980,929
Fixed Assets, at cost less accumulated depreciation of $192,860 (1972-$166,213)	**190,762**	199,267
Deferred Costs, Prepaid Expenses and Sundry Assets	**59,527**	53,099
Goodwill — Note 4	**74,181**	69,796
	$ 33,032,145	$ 16,839,694

On Behalf of the Board:

W. G. Holmes C.A. Director

W. C. Willetts C.A. Director

LIABILITIES AND EQUITY	1973	1972
Bank Loans — Note 5	4,000,000	—
Accounts Payable	2,038,849	688,239
Due to Joint Ventures — Note 6	158,897	—
Provision for Real Estate Development Costs	2,987,280	736,196
Income Taxes Payable	—	403,295
Agreements Payable on Real Estate for Development and Sale — Note 7	6,856,109	5,858,496
Mortgages and Agreements Payable on Revenue Properties —Note 8	8,599,620	2,808,198
Debentures — Note 9	833,625	1,111,500
Deferred Income Taxes — Note 10	1,886,751	887,518
	27,361,131	12,493,442
Share Capital — Note 11	1,666,343	1,587,033
Retained Earnings — Note 12	4,004,671	2,759,219
	$ 33,032,145	$ 16,839,694

Commitments — Note 16

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

	1973	1972
Source of Funds		
Operations	2,480,334	1,129,764
Reduction in mortgages receivable	—	264,342
Funds withdrawn from joint ventures in excess of share of net income for the year	218,091	173,202
Proceeds from agreements payable on real estate for development and sale	2,164,826	5,605,297
Proceeds from mortgages and agreements payable on revenue properties	5,835,047	—
Share capital issued — warrants exercised	79,310	7,410
Other — net	—	10,648
	10,777,608	7,190,663
Use of Funds		
Increase in mortgages receivable	345,665	—
Increase in inventory of real estate for development and sale, less increase in provision for real estate development costs	2,975,273	5,443,427
Additions to revenue properties	6,993,303	770,682
Additions to fixed assets	51,333	105,548
Payments on agreements payable on real estate for development and sale	1,167,213	175,553
Payments on mortgages and agreements payable on revenue properties	43,625	50,682
Debenture repayment	277,875	—
Dividends	145,439	122,190
Other — net	13,113	—
	12,012,839	6,668,082
Increase (decrease) in funds	(1,235,231)	522,581
Funds, beginning of year	2,070,378	1,547,797
Funds, end of year	$ 835,147	$ 2,070,378
Definition of Funds		
Cash	271,250	234,616
Commissions and sundry receivables	1,495,006	738,199
Income taxes recoverable (payable)	208,528	(403,295)
Agreements receivable on real estate sales	4,889,212	2,189,097
Bank loans	(4,000,000)	—
Accounts payable	(2,038,849)	(688,239)
	$ 835,147	$ 2,070,378

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1—Accounting Policies

The company follows the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public Real Estate Companies.

[a] Principles of Consolidation

The consolidated financial statements include the accounts of Melton Real Estate Ltd. and all its subsidiary companies as follows:

	% Ownership
Melton Real Estate (B.C.) Ltd.	100
Melton Homes Ltd.	100
Trans-Canada Mortgage Ltd.	100
Trans-Canada Joint Mortgages Corporation Ltd.	98
Dollard & Gallagher Ltd.	100

The minority shareholders' equity in the net assets of Trans-Canada Joint Mortgages Corporation Ltd. is not significant and has been included in accounts payable on the consolidated balance sheet.

[b] Joint Ventures

Joint ventures in which the company has less than a 50% interest are accounted for on the equity basis.

[c] Land Development

(i) Capitalization of Costs

The following costs are capitalized as a part of the cost of land under or for development.

Real estate taxes

Interest on agreements related to the acquisition of the land

Direct costs such as commissions, legal fees, and preliminary engineering costs

The company does not capitalize administrative overhead.

(ii) Allocation of Costs to Cost of Sales

Undeveloped land cost is prorated to each phase of a project on an acreage basis.

Servicing costs are estimated at the start of each phase of a project and are recorded as a liability. The unexpended portion of the estimated completion costs is shown on the balance sheet as "Provision For Real Estate Development Costs".

The total costs of each phase of a project are allocated to cost of sales on the anticipated selling price basis.

Estimated completion costs are adjusted whenever an estimate is known to be materially different from the actual costs incurred.

(iii) Recognition of Income

The company recognizes profits on sale of real estate when 15% of the sale price has been received and the sale is unconditional.

[d] Revenue Property Development

(i) Capitalization of Costs

The following costs are capitalized as a part of the cost of the property until a 75% level of occupancy is achieved.

Mortgage interest
Real estate taxes
Net rental losses
Direct development costs

Leasing costs are capitalized until fully rented.

Capitalization of costs is subject to a maximum period after physical completion dependent on the size of the project.

(ii) Depreciation Policy

The company depreciates buildings using a 5% sinking fund method based on an estimated useful life of 50 years (35 years for frame construction). Other assets are depreciated using either the declining balance or straight-line method depending on the type of asset and its estimated useful life.

[e] Comparative Figures

1972 figures have been reclassified where applicable to conform to the current year's presentation.

2—Real Estate for Development and Sale

	1973	1972
Land held for future development		
Land cost	7,712,669	6,298,097
Options	51,616	51,616
Carrying costs	386,606	355,069
	8,150,891	6,704,782
Land developed or under development		
Land cost	540,826	139,020
Carrying costs	34,413	31,861
Development costs	2,530,860	314,622
	3,106,099	485,503
Houses under construction		
Land inventory	679,966	140,840
Construction costs	533,872	203,953
	1,213,838	344,793
Property for resale	370,400	79,793
	$12,841,228	$ 7,614,871

The majority of the land held for future development has been acquired by agreement for sale. Title to this land will be obtained when payment on these agreements is made.

The total cost of the land held under option will be $3,613,000 when the options are exercised.

The company also has a contingent asset arising from agreements which give the company the right to purchase one-third of the residential lots to be derived from the future subdivision of 550 acres of land in the City of Edmonton at a fixed price substantially lower than the present market value.

3—Revenue Properties

	1973	1972
Revenue prperties		
Land	403,271	620,692
Buildings and equipment	3,498,567	3,357,657
	3,901,838	3,978,349
Accumulated depreciation	146,383	83,108
	3,755,455	3,895,241
Construction in progress		
Land	1,093,560	180,131
Construction costs	6,463,239	738,149
	7,556,799	918,280
Land held for future development	615,076	167,408
	$11,927,330	$ 4,980,929

The estimated cost to complete construction in progress is approximately $1,000,000.

4—Goodwill

Goodwill is the excess of the cost of the company's investment in consolidated subsidiaries over the value of the subsidiaries' tangible assets at the time of purchase.

5—Bank Loans

The company's bank loans are secured by a fixed charge on certain revenue properties, a general assignment of accounts receivable and a floating charge over other assets of the company.

6—Due to Joint Ventures

The company's proportionate share of the assets and liabilities of joint ventures at December 31 of each of the following years was:

	1973	1972
Assets		
Cash	12,182	22,941
Agreements receivable on real estate sales	166,465	129,319
Real estate for development and sale—at cost	320,497	472,019
Real estate investments	—	49,255
	499,144	673,534
Liabilities		
Bank loan	136,625	—
Accounts payable	1,858	2,821
Income taxes payable	2,422	2,237
Provision for real estate development costs	517,136	598,781
Mortgages payable	—	10,501
	658,041	614,340
Due to joint ventures (equity)	$158,897	$ (59,194)

The liability to the joint ventures arises from the company's withdrawal of land for which a liability for completion of servicing remained in the joint venture.

The company is contingently liable for the total liabilities of the joint ventures in the amount of $2,700,390, however, the total assets of the joint ventures are sufficient for satisfaction of these liabilities

7—Agreements Payable on Real Estate for Development and Sale

Agreements payable on land held for future development, interest rates 6% to 7%	6,639,324
Mortgage advances on houses under construction	216,785
	$ 6,856,109

Principal payments due within five years on agreements payable are as follows:

1974	496,464
1975	232,259
1976	232,434
1977	386,031
1978	502,817
Subsequent	4,789,319
	$ 6,639,324

Principal payments in excess of the amounts due will be made as title is required to initiate development of the various properties.

8—Mortgages and Agreements Payable on Revenue Properties

Principal payments due within the next five years are as follows:

	Mortgages on Revenue Properties	Mortgage Advances On Construction in Progress	Agreements On Land Held For Development	Total
1974	33,593	8,118	27,787	69,498
1975	34,113	24,426	89,250	147,789
1976	36,523	26,586	—	63,109
1977	39,011	28,746	—	67,757
1978	41,536	30,906	—	72,442
Subsequent	2,504,465	5,674,560	—	8,179,025
	$2,689,241	$5,793,342	$ 117,037	$8,599,620
Average annual interest rate	9.7%	9.1%	9.1%	9.2%

Mortgages on construction in progress will total $6,594,113 when fully advanced.

9—Debentures

The 10% Series A debentures are secured by a deed of trust and mortgage containing a first floating charge on the undertaking and all the property and assets of the company. The principal of each debenture will mature in equal annual instalments on July 31 of the years 1974 to 1976 inclusive.

The debentures are redeemable by the company prior to maturity in whole or in part at the following percentage of the principal amount plus accrued interest to the date of final redemption, if redeemed in the twelve months ending July 31 in each of the following years:

1974	102%
1975	101%

The company has the right to purchase the debentures in the market or by private contract at prices not exceeding the above percentage of the principal amount plus accrued interest and cost of purchase.

10—Deferred Income Taxes

On a cumulative basis income taxes payable have been reduced by $1,886,751 by deferring profits on sale of real estate and by claiming expenses for tax purposes, such as depreciation and carrying costs of real estate in excess of amounts recorded in the accounts. This reduction is applicable to those future years in which the amounts already claimed for tax purposes will be charged against income and are included on the balance sheet as "Deferred Income Taxes".

11—Share Capital

Authorized—3,000,000 shares of no par value

	Shares	Consideration
Issued		
December 31, 1972	2,041,003	1,587,033
Warrants converted	60,700	79,310
December 31, 1973	2,101,703	$ 1,666,343
Reserved		
For share purchase warrants	605,900	
For employee stock purchases	100,000	
	705,900	

Bearers of share purchase warrants may purchase common shares of the company as follows:

$1.50 to August 31, 1974
1.75 to August 31, 1975
2.00 to August 31, 1976

In 1972 agreements with employees were approved which provided for the purchases by employees of 84,000 shares over five years provided certain conditions are met. The consideration for these shares will be the market value of the shares at the time the agreements were approved. In January 1974, 16,800 of these shares were issued to employees.

12—Dividend Restrictions

The indenture under which the 10% Series A debentures were issued provides that so long as any debentures are outstanding, the company will not pay any dividends which would have the effect of reducing consolidated retained earnings below $1,438,901.

13—Interest

	1973	1972
Debenture interest and amorization of deferred costs	**103,279**	114,998
Bank loan interest	**152,378**	—
Interest on mortgages and agreements payable on revenue properties	**300,806**	233,953
Interest on agreements payable on real estate for development and sale	**260,518**	40,537
	816,981	389,488
Less interest capitalized		
Revenue properties under construction	**88,614**	—
Real estate for development and sale	**260,518**	40,537
	349,132	40,537
	$ 467,849	$ 348,951

14—Remuneration to Directors and Officers

Remuneration paid during the year to directors and senior officers of the company amounted to $105,600 (1972—$104,525).

15—Earnings per Share

	1973	1972
Basic earnings per share	**$ .67**	$ .41
Fully-diluted earnings per share	**$ .53**	$ .33

Basic earnings per share have been calculated using the weighted monthly average number of shares outstanding.

Fully–diluted earnings per share have been calculated assuming that all warrants outstanding had been exercised at the beginning of the year and the funds received invested at an annual return of 10% before income taxes.

16—Commitments

The company is lessee under certain lease agreements of terms to ten years with annual payments of approximately $269,000.

17—Trust Funds

The company has under its administration trust assets totalling $5,246,758 (1972—$6,317,968) which are not reflected in the financial statements.

FIVE YEAR REVIEW

FINANCIAL POSITION	1973	1972	1971	1970	1969
Commissions and sundry receivables	**$ 1,495**	$ 738	$ 574	$ 355	$ 388
Agreements receivable	**4,899**	2,189	1,925	271	507
Mortgages receivable	**1,065**	700	920	1,403	1,454
Real estate for development and sale	**12,841**	7,615	2,752	1,799	2,024
Revenue properties	**11,927**	4,981	4,254	2,973	1,785
Other assets	**805**	617	648	596	656
Total Assets	**33,032**	16,840	11,073	7,397	6,814
Bank indebtedness	**4,000**		380	189	651
Accounts payable and other liabilities	**2,197**	1,091	571	620	657
Provision for real estate development costs	**2,987**	736	1,329	193	470
Agreements payable—real estate for development and sale	**6,856**	5,859	428	577	654
Mortgages payable — revenue properties	**8,600**	2,808	2,859	1,675	1,186
Debentures	**834**	1,112	1,112	600	
Deferred income taxes	**1,887**	888	624	255	176
Share capital	**1,666**	1,587	1,580	1,577	1,577
Retained earnings	**4,005**	2,759	2,190	1,711	1,443
Total Liabilities and Equity	**33,032**	16,840	11,073	7,397	6,814
OPERATIONS					
Gross revenue from commissions and fees	**7,413**	4,819	3,467	2,367	2,228
Real estate sales	**7,971**	3,541	2,800	623	853
Revenue property income	**492**	482	269	251	246
Interest on agreements receivable	**182**	183	94	52	7
Mortgage interest and discounts	**99**	117	112	130	182
Joint ventures & other income	**220**	231	222	155	247
Total Income	**16,377**	9,373	6,964	3,578	3,763
Commissions	**4,670**	2,926	2,089	1,430	1,392
Cost of real estate sales	**5,673**	2,529	2,178	505	676
Revenue property operating expense	**205**	244	102	84	102
Depreciation	**107**	83	29	21	22
Interest	**468**	349	160	133	134
Administrative and other expense	**2,527**	1,638	1,283	900	817
	13,650	7,769	5,841	3,073	3,143
	2,727	1,604	1,123	505	620
Income taxes	**1,336**	764	542	236	298
Net Income	**1,391**	840	581	269	322
STATISTICAL					
Shares issued — end of year (000's)	**2,102**	2,041	2,036	2,034	2,034
Earnings per share	**$ .67**	$ .41	$ .29	$ .13	$ .16
Cash flow per share	**$ 1.21**	$ .55	$ 49	$ 16	$ 23
Dividends per share	**$ .07**	$ .06	$ .05	—	.05

Data in thousands of dollars except where otherwise indicated.

Figures for years prior to 1972 have been restated to reflect accounting policies adopted in 1972.

FINANCIAL REVIEW

Because the company is involved in five major activities, the financial information supplied in aggregate terms does not provide sufficient information to enable an understanding of the contributions of each activity to the company as a whole.

In the following schedules, net income before tax has been calculated for each division by deducting from the revenues of the division all direct costs and administrative expenses which can be specifically attributed to the division. Common costs which have not been allocated are the cost of corporate debt—217,000 (1972 - $99,000) and general corporate expenses (such as audit, public relations and corporate donations, directors fees and senior management expenses, etc.) The allocation of these costs on an arbitrary basis to the divisions would not assist in the evaluation of the divisional contributions.

The cash flow from operations by division has been calculated by taking the after-tax contribution to net income of each division and adjusting for non-cash items such as deferred income taxes and depreciation.

Earnings — By Division
[in thousands of dollars]

	1973			1972		
	Gross Revenue	Net Income	%	Gross Revenue	Net Income	%
Brokerage	**$ 7,355**	**$ 761**	**20.8**	$ 4,772	$ 647	33.1
Land Development	**7,966**	**2,643**	**72.4**	3,382	1,212	62.0
Construction	**1,374**	**57**	**1.6**	495	7	.4
Revenue Properties	**587**	**21**	**.6**	485	(96)	(4.9)
Mortgage	**138**	**119**	**3.3**	147	127	6.5
Other income	**80**	**48**	**1.3**	92	57	2.9
	17,500	**3,649**	**100.0**	9,373	1,954	100.0
Elimination of Inter-Division Transactions	**1,124**	**329**				
	$16,376	**3,320**		$ 9,373	1,954	
Common Costs		**593**			350	
		2,727			1,604	
Income Taxes		**1,336**			764	
Net Income		**$ 1,391**			$ 840	

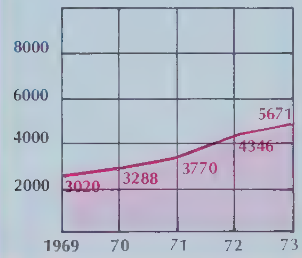
Cash Flow From Operations—By Division
[in thousands of dollars]

	1973		1972	
	After-Tax Cash Flow	%	After-Tax Cash Flow	%
Brokerage	**$ 441**	**17.8**	$ 337	29.8
Land Development	**1,785**	**72.0**	747	66.1
Construction	**29**	**1.2**	4	.3
Revenue Properties	**400**	**16.1**	116	10.3
Mortgages	**45**	**1.8**	11	1.0
Other	**24**	**.9**	60	5.3
Common costs	**(244)**	**(9.8)**	(145)	(12.8)
Total cash flow from operations	**$ 2,480**	**100.0**	$ 1,130	100.0

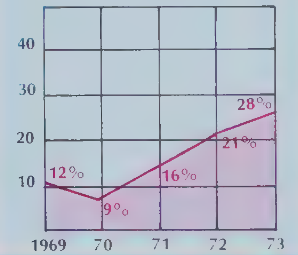
Divisional Operating Review

	1973	1972	1971	1970	1969
Brokerage					
Commissions earned	**$ 7,355**	$ 4,772	$ 3,444	$ 2,341	$ 2,213
Commissions paid	**4,670**	2,926	2,089	1,430	1,392
Operating, selling and administrative expenses	**1,924**	1,199	997	610	517
	6,594	4,125	3,086	2,040	1 909
Net income before taxes	**$ 761**	$ 647	$ 358	$ 301	$ 304
Land Development					
Land sales	**$ 7,652**	$ 3,047	$ 2,775	$ 623	$ 853
Cost of sales	**5,248**	2,104	2,178	505	670
	2,404	943	597	118	183
Interest earned	**182**	183	94	52	7
Joint venture income	**113**	136	130	50	145
Other income	**67**	16	14	24	
	2,766	1,278	835	244	335
Administrative expenses	**123**	66	46	26	24
Net income before taxes	**$ 2,643**	$ 1,212	$ 789	$ 218	$ 311
Construction					
House sales	**$ 1,374**	$ 494			
Cost of sales	**1,220**	425			
	154	69			
Administrative expenses	**97**	62			
Net income before taxes	**$ 57**	$ 7			
Revenue Properties					
Rental income	**$ 492**	$ 482	$ 269	$ 251	$ 246
Operating expenses	**205**	244	102	84	102
Interest	**236**	234	80	87	77
Depreciation	**47**	43	11	9	9
Net operating income	**488**	521	193	180	188
	4	(39)	76	71	58
Gain (loss) on sale of properties	**95**	(10)		32	
	99	(49)	75	103	58
Administrative expenses	**78**	47	22	16	12
Net income before taxes	**$ 21**	$ (96)	$ 53	$ 87	$ 46
Mortgage					
Interest & discounts	**$ 97**	$ 93	$ 113	$ 112	$ 182
Gain (loss) on foreclosed property	**3**	24	(10)	(5)	(20)
Fees earned	**38**	30	9	3	
	138	147	112	110	162
Administrative expenses	**19**	20	20	18	16
Net income before taxes	**$ 119**	$ 127	$ 92	$ 92	$ 146

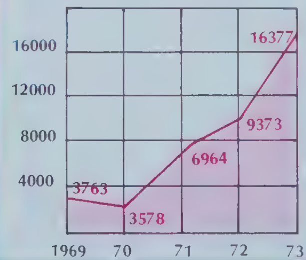
SHAREHOLDERS EQUITY
(IN THOUSANDS OF DOLLARS)



RETURN ON EQUITY
(NET INCOME AS A %
OF AVERAGE SHAREHOLDERS
EQUITY)



GROSS INCOME
(IN THOUSANDS OF DOLLARS)



CORPORATE DIRECTORY

EDMONTON

Corporate Head Office	10310 Jasper Ave.	429-6931
Land Development	J. McCracken	
Revenue Properties	C. Moroschan, B.A., B.Comm.	
Construction	T. Smith	
Mortgage	D. Holthuysen	
Controller	G. Wooldridge, C.A.	
Data-Processing Manager	G. Hill	
Advertising & Public Relations	D. Hauck, R.T.A.	
Real Estate Brokerage	10310 Jasper Ave.	424-7221
Regional Manager	H. Dundas	
Residential Sales Manager	K. Shearer	
New Homes Sales	D. Garrison	
Commercial & Industrial	B. Ellis	
Leasing	J. Rose	
Property Management	B. Matheson	
Appraisal	J. Spitzner	
Jasper Place Branch	K. McCoy	
Glenora Branch	B. Atkins	
North West Branch	G. MacTaggart	
Norwood Branch	L. Hauca	
North East Branch	S. Dudar	
South East Branch	T. Henderson	
South West Branch	D. Clark	
South Central Branch	B. Fraser	
St. Albert Branch	P. Connor	
Sherwood Park Branch	G. Moshansky	
Spruce Grove Branch	B. Marlin	

CALGARY

	#304 1220 Kensington Rd. N.W	
Land Development	D. Kelly	283-4917
Construction	O. Harasym	
Real Estate Brokerage	534-8th Avenue S.W.	266-8671
Regional Manager	G. Phelps	
Commercial Manager	T. Heisler	
New Home Sales	J. Palmer	
Property Management	W. Butler	
North West Branch	D. Danilowich	
North Hill Branch	R. Reidel	
South West Branch	D. Grant	
MacLeod Trail Branch	B. Reid	
South Central Branch	T. Zaharko	
Forest Lawn Branch	R. Murray	

RED DEER

Real Estate Brokerage	4809-48th Avenue	346-8931
Manager	G. Peterson	

SASKATOON

Real Estate Brokerage	119-23rd Street East	653-3636
Regional Manager	M. Damberger	

REGINA

Real Estate Brokerage	2032 Rose Street	522-2633
Regional Manager	A. Sims	
Commercial	J. Craig	
Property Management	B. Gallagher	

WINNIPEG

Real Estate Brokerage	#6 Donald Street	453-6148
Regional Manager	I. McKinnon	
Commercial	H. Friesen	
Portage Avenue Branch	G. Cooper	
River Heights Branch	G. Clark	
North Winnipeg Branch	R. Bryk	
North East Branch	M. Hayden	

VANCOUVER

Real Estate Brokerage	1435 Kingsway	879-7571
Regional Manager	W. Mooney	
Conveyancing	M. Cowan	
Property Management	T. Easton	
Kingsway Branch	B. Nelson	
North Vancouver Branch	G. Goldman	
Coquitlam Branch	L. Ferster	
Surray Branch	R. Edmonson	
Burnaby Branch	B. Merrin	

VICTORIA

Real Estate Brokerage	912 Douglas Street	386-7551
Manager	B. Hutchinson	

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EDMONTON ALBERTA

MELTON
REAL ESTATE LTD.

MELTON REAL ESTATE LTD.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND USE OF CASH

For the Six Months Ending June 30, 1973

(Unaudited)

Source of Cash	
Operations	$ 847,936
Reduction in investment in joint ventures - net	190,189
Reduction of real estate held for development and resale net of provision for development costs	425,265
Increase in mortgages and agreements payable on real estate investments, net of repayments	574,251
Share capital issued – warrants exercised	47,710
Other – net	165,703
	$ 2,251,054
Use of Cash	
Increase in agreements receivable on real estate sales	716,539
Increase in commissions and sundry receivables	745,570
Increase in mortgages receivable, net of payments received	166,506
Additions to real estate investments	1,061,653
Reduction in agreements payable on real estate for development and resale	710,846
Dividends	145,439
	$ 3,546,553
Excess of use of cash over source of cash represented by increase in bank advances and decrease in cash	$ 1,295,499

OFFICES

EDMONTON	
10310 Jasper Avenue	Phone: 424-7221
CALGARY	
534 – 8th Avenue S.W.	Phone: 266-8671
RED DEER	
4809 – 48 Avenue	Phone: 346-8931
SASKATOON	
119 – 23 Street East	Phone: 653-3636
WINNIPEG	
202 - No. 6 Donald Street	Phone: 453-6148
VANCOUVER	
Melton Real Estate (B.C.) Ltd. 1435 Kingsway	Phone: 879-7571

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MELTON REAL ESTATE LTD.

REPORT TO SHAREHOLDERS
for the 6 months ending
June 30, 1973

August 3rd, 1973

REPORT TO SHAREHOLDERS

Your Directors are pleased to report to you on the Company's operations for the first six months of 1973.

Earnings — Net income for the period was $575,037, equivalent to 27.7 cents per share compared with $443,240. or 21.7 cents a share for the same period last year.

Cash Flow — The cash flow per share was 40.8 cents, as compared with 28.5 cents for the same period last year.

Commission Income — The continued expansion of the real estate sales division is reflected in the 43% increase in commission income as compared with 1972. The Vancouver and Saskatoon Regions had the largest percentage increases. During the first six months of 1973 we opened three branches in Winnipeg, our ninth and tenth branches in Edmonton, our seventh branch in Calgary and our fifth branch in Greater Vancouver.
In July we opened a branch in Red Deer and arrangements were completed for the purchase on September 1, 1973 of a prominent real estate company in Regina.

Land Department — The increase in gross sales and net income resulted from the sale of all serviced residential lots in Leduc and the first stage of the Dalhousie subdivision in Calgary, as well as the sale of industrial land in Edmonton.
During the second half of the year we will have serviced residential lots for sale in Edmonton, Calgary, Spruce Grove and Kamloops, all areas of rapid growth.

Rental Properties — The continued expansion of our investment in rental properties is reflected in the increase in rental income and the projects which will be acquired or developed during the second half of the year. The major projects are a 283 unit apartment complex in South Edmonton and the addition of seven floors of office space to the former two storey Melton Building in downtown Edmonton.

Construction Department — This Department continues its expansion with thirty-nine single family housing starts made in Calgary and the Edmonton area in the first half, and an increased number planned for the second half. The quality and design of the houses and their acceptance by the public is demonstrated in that all completed homes have been sold. This Department, which contributed to the net profit in the first six months, shows considerable promise for the future.

Forecast for 1973 — With our program of planned growth for all divisions we are confident that the trend of increased earnings will continue for the balance of 1973.

Appointments — We are pleased to advise that Mr. W.G. Holmes, C.A., Vice-President and Treasurer, has been appointed Executive Vice-President and Chief Operating Officer of the Company. Mr. W.G. Bennett, F.R.I. has been appointed Vice-President, Real Estate Sales Division, and Mr. P.J. Dailey, B. Comm., M.B.A. Vice-President Real Estate Investment Division.
We are pleased to announce that Mr. W.C. Willetts, C.A. has been elected a Director of the Company. Mr. Willetts was formerly the Senior Partner of Willetts Macmahon and Company. Mr. Willetts has had a long association with our firm and has a great deal of experience in the real estate industry.

On Behalf of the Board

S. L. Melton

S.L. Melton
President

MELTON REAL ESTATE LTD.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

For the Six Months Ending June 30, 1973

(with comparative figures for 1972)

(Unaudited)

	1973	1972
Income		
Gross revenue from commissions and fees	$ 3,437,060	$ 2,394,824
Real estate sales	3,124,029	1,735,884
Rental property income	328,357	213,841
Net income from joint ventures	128,596	106,523
Interest on agreements receivable	78,880	88,690
Mortgage interest and discounts	44,829	71,767
Other income	28,310	16,055
	7,170,061	4,627,584
Expenses		
Commissions	2,216,252	1,485,037
Cost of real estate sales	2,344,342	1,201,814
Rental property operating expenses	144,521	120,371
Depreciation	43,691	35,603
Interest	173,243	183,490
Operating and administrative	1,140,549	714,329
	6,062,598	3,740,644
Income before income taxes	1,107,463	886,940
Income taxes		
Current	303,218	309,500
Deferred	229,208	134,200
	532,426	443,700
Net income for the period	$ 575,037	$ 443,240
Earnings per share	27.7 cents	21.7 cents
Cash flow per share	40.8 cents	28.5 cents

OFFICERS AND DIRECTORS

S. L. MELTON, F.R.I., S.I.R.
President, Melton Real Estate Ltd.

W. G. HOLMES, C.A.
Vice President, Treasurer, Melton Real Estate Ltd.

J. R. SHERRIN
Company Secretary, Melton Real Estate Ltd.

S. M. BECKHUSON
Vice President, Trans-Canada Joint Mortgages Corporation Ltd.

G. R. BROSSEAU, B.A., LL.B.
Senior Partner, Brosseau, Maccagno

L. G. LEMIEUX
Chairman, Gateway Building Supplies Ltd.

SENATOR E. C. MANNING, P.C., C.C.
President, M & M Systems Research Ltd.

OFFICES

EDMONTON
10310 - Jasper Avenue — Phone: 424-7221

CALGARY
534 - 8th Avenue S.W. — Phone: 266-8671

SASKATOON
119 - 23 Street East — Phone: 653-3636

VANCOUVER
A. E. Austin & Co. Ltd.
1435 Kingsway — Phone: 879-7571

WINNIPEG
202 - No. 6 Donald Street — Phone: 453-6148

MELTON
REAL ESTATE LTD.

REPORT TO SHAREHOLDERS
for the 3 months ending
March 31, 1973

May 1, 1973

REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors I am pleased to report to you on the Company's operations for the three months ended March 31, 1973.

Net income for the period was $174,316 or 8.6 cents per share compared to $249,315 or 12.2 cents per share for the same period in 1972. Cash flow for the three months ended March 31, 1973 was 11.1 cents per share as compared to 14.6 cents per share in 1972. The 1972 figures have been restated to conform with the accounting policies set forth in our 1972 annual report. The first quarter results should not be taken as indicative of our earnings for the balance of the year.

The first quarter results include the cost of opening three offices in Winnipeg where results to date have been satisfactory. The real estate sales division had a 30% increase in sales during the first quarter and sales during April continued at a record level. During the first quarter an additional sales office was opened in Edmonton and plans were completed to open in the second quarter two more offices in Edmonton, our seventh office in Calgary and our fifth office in the greater Vancouver area, which will bring to 27 the number of offices we have in Western Canada.

Real estate sales increased in dollar volume as they reflect the sale of lots in North West Calgary which are higher priced than lots sold in 1972 in our subdivisions in satellite towns. The profit in 1972 was greater as it included the sale of a multi-family site which has been held for many years. During the first quarter planning progressed on subdivisions in Spruce Grove, Leduc, Edmonton, Calgary and Kamloops and residential lots should be available for sale in all these areas in the second quarter.

Construction has commenced on the expansion of our Shopping Centre in Spruce Grove and on the seven storey addition to our office building in down town Edmonton which will be completed this fall. Arrangements have been made for additional financing at reasonable rates to enable us to substantially increase our investment in revenue properties.

General economic conditions for 1973 are favourable and we look forward to a successful year of increased earnings and cash flow.

Respectfully submitted

S. L. Melton, President
President

MELTON REAL ESTATE LTD.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

For the Three Months Ending March 31, 1973

(With Comparative Figures for 1972)
(Unaudited)

	1973	1972
Income		
Gross revenue from commissions and fees	$ 1,392,688	$ 1,074,433
Real estate sales	1,103,224	721,755
Rental property income	148,293	97,989
Net income from joint ventures	32,508	107,519
Interest on agreements receivable	43,868	50,241
Mortgage interest and discounts	26,043	29,768
Other income	4,881	5,500
	2,751,505	2,087,205
Expenses		
Commissions	880,980	643,362
Cost of real estate sales	861,457	428,678
Rental property operating expenses	63,867	50,813
Depreciation	21,684	17,526
Interest	87,843	95,812
Operating and administrative	503,389	353,897
	2,419,220	1,589,458
Income before taxes	332,285	497,747
Income taxes		
Current	131,651	216,432
Deferred	26,318	32,000
	157,969	248,432
Net income for the period	$ 174,316	$ 249,315
Earnings per share	8.6 cents	12.2 cents
Cash flow per share	11.1 cents	14.6 cents